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ABSTRACT

This individualized, competency-based unit on understanding the nature of small business, the first of 18 modules, is on the third level of the revised Program for Acquiring Competence in Entrepreneurship (PACE). Intended for the advanced secondary and postsecondary levels and for adults wanting training or retraining, this unit, together with the other materials at this level, emphasizes the actual application of a business plan. Four competencies are dealt with in this instructional unit, including (1) analyzing the personal advantages of owning one's own small business, (2) analyzing the personal risks of owning one's own small business, (3) analyzing how to maximize the opportunities and minimize the risks, and (4) determining what entrepreneurial skills one would need to start a business. Materials provided include objectives, preparation information, an overview, content (with questions in margins that guide the students' reading), activities, assessment forms, and notes and sources. The unit requires using approximately 3 hours of class time. (YLB)

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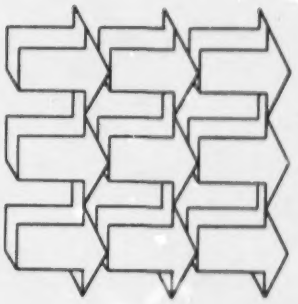
PACE
REVISED
Program for Acquiring Competence in Entrepreneurship



UNIT 1

☐ Level 1
☐ Level 2
☑ Level 3

# Understanding the Nature of Small Business

Developed by M. Catherine Ashmore and Sandra G. Pritz

**You will be able to:**

- **Analyze the personal advantages of owning your own small business.**
- **Analyze the personal risks of owning your own small business.**
- **Analyze how to maximize the opportunities and minimize the risks of owning your own business.**
- **Determine what entrepreneurial skills you would need to start your own business.**

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Research & Development Series No. 240 CB 1

## BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read the Unit Objectives on the front cover. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met at Levels 1 and 2:

   Level 1 -

   - Define a "small business"
   - Identify the different types of small businesses
   - Describe how small businesses contribute to the American way of life
   - Describe what role small businesses play in the American economic system
   - Identify the major factors contributing to the success of a small business

   Level 2 -

   - Describe the characteristics of a small business by type
   - Identify potential small business opportunities and determine one you would select to follow
   - Describe the process of starting a small business
   - Describe how supply and demand affect a small business
   - Discuss how competition affects small business
   - Analyze what major factors will affect the success or failure of a selected type of business

   If you feel unsure about any of these topics, ask your instructor for materials to review them.

4. Look for these business terms as you read this unit. If you need help with their meanings, turn to the Glossary in the *Resource Guide*.

   capital formation
   conglomerates
   consignment
   discretionary income
   inflation
   investment
   macroeconomics
   recession
   undercapitalization

# UNDERSTANDING THE NATURE OF SMALL BUSINESS

**WHAT IS THIS UNIT ABOUT?**

If you have an interest in entrepreneurship, you may want to explore the existing world of small businesses more thoroughly. You may even find that you want to become a small business owner.

Dr. Richard Lesher, president of the Chamber of Commerce of the United States (the world's largest private business federation), summarizes his feelings about the nature of small business with this quote from Albert Einstein:

"Everything that is really great and inspiring is created by individuals who labor in freedom."

And as Dr. Lesher also points out, it's only because of small business that we have products such as the ballpoint pen, FM radios, automatic transmissions, and helicopters.

**WHAT BASIC IDEAS ABOUT ENTREPRENEURSHIP SHOULD YOU KEEP IN MIND?**

Small businesses are a major factor in the health of the American economic system. They make up 97 percent of all businesses. They provide employment for almost 50 percent of the labor force. Small businesses also account for 38 percent of the United States gross national product. Here are some ideas about entrepreneurs to keep in mind:

- Small business has the biggest share of sales and employees in the retailing, wholesaling, and service industries. This fact is especially important today because the retailing and service industries are expected to show the most industry growth in the eighties. While manufacturing is typically a big business industry, small business provides the bulk of sales and employees in certain segments such as furniture and apparel.

- Small business entrepreneurs aren't upset by the fact that they operate on much smaller scales than do large manufacturing industries. Entrepreneurs view small scale operations as an opportunity to be more flexible, and an opportunity to serve smaller industries or produce more products.

- Many resources are available to help you learn more about specific small business ventures. They include the Small Business Administration, industry associations and publications, business reference books, educational texts, other business people, and customers.

- In using statistics, entrepreneurs are careful not to place too much value on specific numbers. Instead, entrepreneurs use statistics as thought starters and trend indicators.

- Small businesses owned by minorities and women account for more than 1,200,000 enterprises in the United States. Most of these enterprises are concentrated in the service industries.

Forty-three percent of the businesses owned by minorities and 48 percent of the businesses owned by women provide services. These are the facts at present, but not necessarily the facts of the future.

- The single biggest cause of small business failures is poor management. Another factor is failure to anticipate the needs of the customers.
- Small business opportunities are not hard to find. They can be licensed from others. They may be gleaned from industry sources. Many are developed from the entrepreneur's own good ideas.
- The criteria for selecting an idea for an entrepreneurial venture are personal and professional. While it's important that the idea have business potential, it is also important that it fit the entrepreneur's style and expertise. The most constant element in new business success is the performance of the entrepreneur.
- Supply and demand are the essence of the free enterprise system. They work to the advantage of consumers who can get products and services they want. Open competition within the free enterprise system also stimulates quality, availability, and fair pricing of products and services.
- The nature of competition among businesses is dependent on the nature of the demand. A demand for quality usually doesn't stimulate the lowest price. A demand for lowest price can ultimately reduce the product to a commodity status. The nature of competition in the sale of commodity-type products is not always easily identified.
- While it is unclear what specific characteristics are needed to be a successful entrepreneur, it is very clear that a special state of mind exists.
- The "entrepreneurial state of mind" provides the proper intensity, enthusiasm, optimism, and persistence needed to generate and manage new ideas.

The steps in starting a new business are outlined in the table of contents of this PACE curriculum. PACE is designed to provide the user with a personal and workable business action plan.

**HOW CAN ENTREPRENEURSHIP BE STUDIED?**

As you continue your work with the PACE series, you'll be able to examine facts and figures and to study trends and experience curves. You'll also be able to examine the typical experiences, actions, and thinking of individual business entrepreneurs.

There are at least three advantages of this method of study. First, you will not reduce the subject to a lifeless, statistical profile that fails to let you see the true, dynamic nature of small business.

Second, you'll be able to gain firsthand experience with small business entrepreneurs. You will "flesh out" the meaning of the statistics involved in a small business operation.

Third, by using an active, case study learning method, you'll be using the same method that small business entrepreneurs use in planning and managing their enterprises. You'll collect and evaluate as much good data as is available

You'll learn how to make decisions based on incomplete answers. You may never know if the decisions are "right." Your instructor won't even have the "correct" answers—only alternative or possible solutions. In the real world of business, many answers could be "correct."

The famous Harvard Business School uses the case study method to train their graduates for entering the world of business "not with the diploma that says I can think, but the knowledge that says I can act."[2]

Malcolm McNair, a faculty member of the Harvard Business School, has edited a volume of papers that examine the development of the case method of study. In Albert H. Dunn's discussion, "Basic Characteristictics of the Case Method, he says—

> The basic equipment which the case method student should possess is . . . [they] must be intelligent, curious, industrious, and retentive and must have an acceptable ethical code. . . . They must be capable of happy adjustment to a truly democratic learning process, and must possess a tough yet flexible mind. . . . The mind that can adjust easily to a democratic learning process has a number of distinguishing qualities, not the least of which is willingness to accept risk.[3]

McNair's description of the successful case study method student closely resembles some of the characteristics of successful entrepreneurs. Some of these are—

- tough-minded decision making in the absence of certain or definite results;
- flexibility that allows the entrepreneur to deal with day-to-day shifts in information and direction without getting flustered or discouraged;
- creativity that the entrepreneur uses to put new ideas, new facts, and new resources together in unusual ways;
- reasonable risk-taking in cases where the possible reward is worth the risk. The results must be somewhat within the control of the entrepreneur—they cannot be strictly left to chance.

Your degree of active participation in the learning process will, in large part, determine your degree of success in acquiring usable

knowledge and skills. McNair points out that you, the successful case study student, must possess not only a resilient mind and a risk-taking nature, but you must also have a

> . . . willingness to accept the risk of uncertain progress; a willingness to set aside reticence in defending your logic; and courage to go a step beyond the facts.[4]

**WHAT ARE THE ADVANTAGES AND DISADVANTAGES OF OWNING YOUR OWN SMALL BUSINESS?**

As you begin to examine the advantages and disadvantages of owning your own business, you may want to reserve judgment on some of the items. What may seem to be an advantage can turn into a disadvantage tomorrow. In fact, some of the items may fluctuate daily. After you complete your analysis of advantages and disadvantages, put the list away for several weeks and then review it again.

Many entrepreneurs say that the feeling of personal achievement is the number one personal advantage of owning a small business. Loss of time is the number one personal disadvantage.

Some other possible personal items are shown in table 1. Your own list may be very different. Talk to other entrepreneurs. Find out if they would list any of the same items. Would they classify them the same way? Try to discover new items for your list.

**TABLE 1**
**PERSONAL ADVANTAGES AND DISADVANTAGES OF OWNING YOUR OWN BUSINESS**

| ADVANTAGES | DISADVANTAGES |
|---|---|
| Personal achievement | Loss of personal time |
| Use of all skills | Fear of failure |
| Development of new skills | Personal reputation loss after failure |
| Sense of responsibility | Loss of money |
| Feeling of flexibility/ control | Loss of self-confidence |
| Sense of leadership | |
| Opportunity for wealth | |
| Opportunity to share wealth | |

**WHAT ARE THE SOCIAL ADVANTAGES AND DISADVANTAGES?**

Table 2 lists some possible social advantages and disadvantages. They should serve primarily as thought starters for your own list.

As you develop this list, talk to corporate business leaders as well as other entrepreneurs. Is there a difference in their estimations of what social advantages and disadvantages you may experience?

**TABLE 2**
**SOCIAL ADVANTAGES/DISADVANTAGES OF OWNING YOUR OWN BUSINESS**

| ADVANTAGES | DISADVANTAGES |
|---|---|
| Performing community services in own name | Loss of corporate executive stature |
| Enhanced community status | Loss of time to help others |
| New peer relationships | Loss of corporate resources |
| Lack of peer pressure | Loss of close business circle contacts |
| Position as a trend-setter | |

**WHAT ARE THE FAMILY ADVANTAGES AND DISADVANTAGES?**

Table 3 contains the items that can be the most rewarding or most devastating to an entrepreneur. Family considerations may influence some entrepreneur's decisions more than any others. As you develop your list, be sensitive to the differing perceptions your family may have about your business. How important will their influence be in your business? How much support will you need and want?

**TABLE 3**
**FAMILY ADVANTAGES AND DISADVANTAGES OF OWNING YOUR OWN BUSINESS**

| ADVANTAGES | DISADVANTAGES |
|---|---|
| Family may spend time together working toward a common goal | Loss of free time |
| Family members may provide a business resource | Family security diminished |
| Family is involved | Family confidence reduced |
| Family is proud and supportive | Family understanding strained |

Table 4 lists potential advantages and disadvantages of interrupting a corporate career to start your own business. It can be also be used to evaluate any serious activity the small business will interrupt such as sports, education, or homemaking.

If you are already an entrepreneur, you can reevaluate the original trade-offs you made when you started your business. Is it still a good trade? Is it better? Was it a bad risk? Can you improve the trade-offs by changing work habits?

**TABLE 4**
**CAREER ADVANTAGES/DISADVANTAGES OF OWNING YOUR OWN BUSINESS**

| ADVANTAGES | DISADVANTAGES |
|---|---|
| Greater career potential | Loss of job security |
| More control of goal-directed activities | Loss of position or promotion |
| More focused use of energies | Loss of income |
| More well-rounded executive qualities | Loss of tenure |

**WHAT IF THIS IS YOUR FIRST JOB?**

If this is your first job, use table 4 to list the advantages of working for yourself. Compare them to the advantages and disadvantages of working for someone else. Some disadvantages of working for yourself might be the lack of supervision, training, or fixed income.

**HOW CAN YOU USE TIME AND YOUR SUBCONSCIOUS TO HELP ANALYZE THE ADVANTAGES AND DISADVANTAGES OF OWNING A SMALL BUSINESS?**

When you have completed your initial list, check it to see what the two or three top advantages and disadvantages are. Then put the list away for a week or two. Think about and compare the top items again. Talk to others who might have a different perspective. How important are those advantages? Are they worth the risk? Are the disadvantages critical?

When evaluating these items, try to picture under what conditions they could shift. Is there a way to minimize the disadvantages?

Gordon Baty's philosophy is:

> It is more difficult to fail than is often imagined. The business failure statistics collected by Dun & Bradstreet and mournfully recited by the press are compilations which include every type of venture from the doomed "ma and pa grocery" to moribund used car lots, gas stations, small jobbers, wholesalers, needle trades firms, and every other conceivable form of enterprise. When the lugubrious chant about 80 percent business failures starts, tune out. This is data, not information.[5]

If you feel the disadvantages are looming out of proportion, read Baty's book *Entrepreneurship for the Eighties.*

**TABLE 5**

**WAYS TO MAXIMIZE THE OPPORTUNITIES AND MINIMIZE THE RISKS OF OWNING A SMALL BUSINESS**

| Ways to: Maximize Opportunities | Ways to: Minimize Risks |
|---|---|
| 1. Understand the American economic system and the role that small business plays in it. | 1. Avoid taking unnecessary, or high risk/low potential chances. |
| 2. Describe the business activities carried out in your particular market segment. | 2. Use members of your staff to help fill in your personal business weak spots. |
| 3. Determine your own position and potential within the segment. | 3. Be sure to start out with enough capital. |
| 4. Visualize and meet individual customers and discover their needs and habits. | 4. Practice contingency action plans. Don't become so locked into any one plan that new or changing market conditions are ignored. |
| 5. Know your competition. | 5. Locate and keep in touch with back-up sources of materials, labor, capital, distribution, and management. |
| 6. Identify your product or service by the customer needs that it meets. | 6. Forget about risks once all steps have been taken to minimize them. Don't keep worrying about each decision. |
| 7. Obtain access to or knowledge of where to get industry intelligence information. Protect the confidentiality of your own business ideas. | |
| 8. Plan your business strategy with built-in flexibility and contingency action plans. | |
| 9. Evaluate market conditions continually thru customers, employees, trade publications, and business newspapers. | |
| 10. Identify your own strengths and weaknesses as they relate to managing the business. | |
| 11. Develop communications with a broad network of friends in the same and related industries. | |

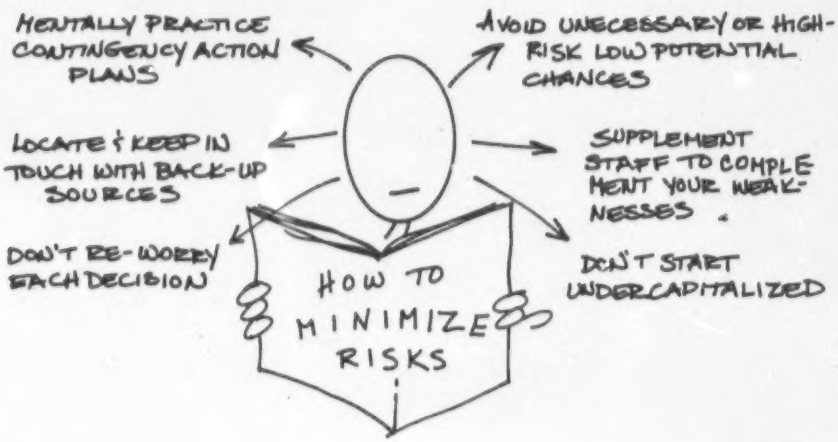
**HOW CAN YOU MAXIMIZE OPPORTUNITIES AND MINIMIZE THE RISKS OF OWNING YOUR OWN BUSINESS?**

Table 5 lists some steps you can take to ensure your greatest success as a small business entrepreneur. As we move through our exploration of these concepts, activities will be suggested that are designed to give you firsthand experience with entrepreneurship.

If you are already involved in your own business, use the suggestions in table 5 to measure your current plans and strategies.

Joseph Schumpeter describes the supply and demand phenomena of the American economic system in his book *The Theory of Economic Development*, as follows:

. . . the circular flow of economic life is closed. In other words, the sellers of all commodities appear again as buyers in sufficient measure to acquire those goods which will maintain their consumption and their productive equipment in the next economic period . . .[6]


MENTALLY PRACTICE CONTINGENCY ACTION PLANS
AVOID UNECESSARY OR HIGH-RISK LOW POTENTIAL CHANCES
LOCATE & KEEP IN TOUCH WITH BACK-UP SOURCES
SUPPLEMENT STAFF TO COMPLEMENT YOUR WEAKNESSES
DON'T RE-WORRY EACH DECISION
DON'T START UNDERCAPITALIZED
HOW TO MINIMIZE RISKS

**WHAT IS THE CLOSED CIRCULAR FLOW THEORY OF ECONOMIC ACTIVITY?**

Schumpeter's description of the "closed circular flow" of our daily economic activities is almost visual. Reduced to its simplest terms, it's the baker trading his bread to the shoemaker for shoes, plus a little extra cash. The baker then uses part of the money to buy more flour, and part to buy a new shirt. The shirtmaker sells the baker the shirt for money. The shirtmaker uses the money to buy more thread plus a good steak. The butcher sells the steak for money and uses it to buy a new pair of shoes. The shoemaker spends money to buy a loaf of bread and a piece of meat and has a little left over. This extra money is then used to buy a better shoemaking machine in the fall.

**DOES THE CIRCULAR FLOW OF OUR ECONOMY PRODUCE REAL PROFIT?**

While some profit seems to be generated in the normal flow of economic trading, it comes in fairly small amounts based on supply and demand. It is based on the total level of business activity established up to that point in time and not new activity. Thus it is not considered as "true profit" to the system and doesn't generate new wealth.

**WHERE DO REAL PROFIT AND NEW WEALTH COME FROM?**

Schumpeter explains how new wealth is created outside the circular flow by entrepreneurs. Entrepreneurs who borrow money on yet-to-be produced goods fulfill the pure economic definition of using "credit."

Schumpeter explains:

> We now come to the third of the elements* . . . namely the "new combination of means of production," and credit . . . the third may be described as the fundamental phenomenon of economic development. The carrying out of new combinations we call "enterprise"; the individuals whose funtion it is to carry them out we call "entrepreneurs."[7]

*Schumpeter's first two profit producing elements are new land (natural resource) discoveries and new labor resources.

Using these fundamental definitions of the American economic system, we see that entrepreneurs are a major source of new wealth. Discovering new product combinations for old markets or new markets for old products, fulfills Schumpeter's definition of the "new combinations."

As we examine the areas of business from which new products arise, we find that virtually all of them are small business areas. Following is a list of small business achievements often described by the SBA.

- Independent small business entrepreneurs have been responsible for more than half of all the product and service innovations which developed in the United States since World War II.

- A review of the leading 500 technological innovations in the United States between 1953 and 1973 shows that small business firms (defined as those with up to 1,000 employees) produced four times as many innovations . . . as medium-sized firms (defined as those with 1,000 to 10,000 employees).

- Nearly every major energy-related innovation in the past 100 years has been developed by small business. They include the electric car, the air conditioner, the gasoline engine, the electric light, gasoline, and transformers.

- Of the seven major innovations in the areas of petroleum refining since 1945, all were developed by small business.

- Small business plays another important role in the American economic system. Besides providing new wealth, small businesses are responsible for the tremendous variety of goods available to Americans.

- Without the diversity, flexibility, capability, and willing eagerness of small business entrepreneurs, the American public would have to settle for the rather small variety of goods produced by big business.

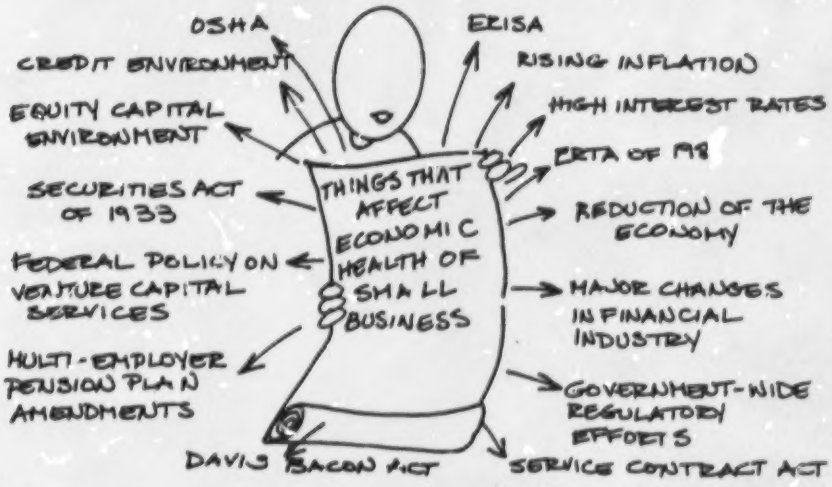
- In fact, without small business to supply certain products and services, many big businesses couldn't maintain operations. Small businesses move the bulk of big manufacturers' goods through the wholesaling process on their way to consumers.

- Besides dominating the wholesale business economy, small businesses also dominate the retailing and service areas.

- The growing economic force of businesses owned by minorities and women is almost totally one of a small business nature. Between 70 and 80 percent of these small businesses are in the retailing and service areas.

**WHAT IS SMALL BUSINESS' SHARE OF THE GNP?**

According to the SBA, "Small business accounts for 38 percent of the gross national product; contributes two out of three new jobs; and produces twice as many innovations per employee as larger firms."




The economy has been particularly harsh to small businesses lately. Even so, the SBA predicts that with the slowdown in the inflation rate, small firms should be able to recapture much of the economic ground they have lost.

Some of the major economic forces and government policies that have a great effect on the economic health of small businesses are—

- the rate of inflation and interest
- the Economic Recovery Tax Act of 1981 (ERTA),
- reduction or expansion of the level of production of economy,
- major changes in the financial industry such as loan conditions and access to financial capital
- the credit environment,
- the equity capital environment,
- the Securities Act of 1933,
- federal policies on venture capital services,
- government-wide regulatory efforts,
- the Employee Retirement Income Security Act (ERISA),
- the Multiemployer Pension Plan Amendments,
- the Davis-Bacon Act,

- the Service Contract Act,
- the Occupational Safety and Health Administration (OSHA).

You may not need to know about all of these major economic and government forces now. Once you select a small business, however, it would be good to review them. Determine which ones may help and which ones are likely to hurt. The information is from the *Annual Report of Small Business and Competition: Executive Summary*, March 1982. A copy of this portion of the report is in the PACE *Resource Guide*.

If you would like a copy of the whole summary, check with the nearest SBA office or the Department of Economic Development in your state.

**WHAT IS THE BUSINESS AND ECONOMIC ACTIVITY CARRIED ON IN THE SPECIFIC SEGMENT OF INDUSTRY YOU'VE CHOSEN?**

Describe the business activity of your segment of industry. List the product(s) or service(s) that are produced. Identify the customer group(s) that will be served. Identify and locate the manufacturers, producers, or wholesalers who supply raw materials. Describe the equipment or method used if it is a service. Determine the method of distribution.

As you begin collecting the information for this business activity profile, you might want to start with the Standard Industrial Classification code. There are also specific government publications dealing with virtually every industry. You can get a list of the titles of available literature from a regional SBA office, a federal govenent bookstore, or by writing to:

SBA, P.O. Box 15434, Fort Worth, Texas 76119. The toll free number is 800-433-7212 (in Texas call 800-729-8901).

Besides the government resources, industry trade magazines can supply more in-depth descriptions of the activities and variations that creep into every business operation.

There are several advantages in building a good profile of potential activities in your industry.

First of all, a profile will clarify the boundaries of your basic operation. It will also give you a perspective on your relationship to the economic structures most likely to affect your profit potential.

In addition, the profile can be a source of ideas for carving a unique position for your company now or for expansion in the future.

**WHAT IS YOUR POSITION IN THE INDUSTRY SEGMENT?**

For example, if you are considering a manufacturing operation where some of the raw materials, you need come from other manufacturers you could decide to expand your operation to supply that raw material. Or, if in describing the business activity you find that the product you produce would typically be handled and distributed by wholesalers, you may decide to set up your own distribution network.

The decisions you make on the scope of your business activity will affect market position and profit potential.

Here are some questions to ask yourself:

- Can I make it or do it myself for any less than I can buy it?
- Would making it or doing it myself provide a profit big enough to make it worth my while?
- If I did it, could I significantly cut the price to the consumer and perhaps be in a position to sell bigger quantities at a faster rate?
- Would it significantly cut into the time and resources I have to devote to the basic operation?
- Would it be better to start with the basic operation and gain some experience before trying to take on anything else?

Talking to others already in business may provide some practical insights. Be cautious, though, of accepting a practitioner's judgment statements such as "it probably won't work," or "sure it will work." Use the facts and opinions only to help you form your own judgment—don't accept them as the final word. Protect your own business ideas by not divulging critical competitive information.

There must come a point in your planning when you have examined enough options. Your need for action will help you finalize this thinking phase. You must simply pick the best available option. Allow for flexibility to make any additional changes in case the situation changes suddenly.

This is the reasonable risk taking as well as the flexibility that characterizes so many successful entrepreneurs. The thin line between being too optimistic and too pessimistic probably doesn't exist. Your personality, skills, and methods of operation are unique. If you jump into the game sooner than others might, it may mean their level of risk taking is different from yours. The important thing is that you do enough thinking and planning to feel comfortable with your decision. There is no right amount, no right time frame, and no right answer. There is only your ability to succeed or fail.

**WHAT'S THE BEST WAY TO DETERMINE THE NEED FOR YOUR PRODUCT?**

"Putting yourself in the other person's shoes" is more than just being considerate. If you don't consider your customers', suppliers', employees', and others views, you will never realize the full potential of your own venture.

As you plan your business, talk to as many potential customers as possible. Find out about their needs and possible uses for your product. Find out their likes and dislikes about the product and price. Ask how, where, and when they like to buy. Notice how they dress and talk. Find out where they live and work. Find out where and how they use the product.

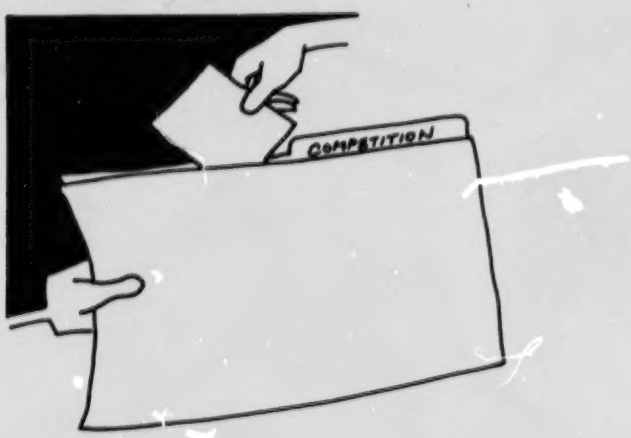
The more you know about your customer, the better your chance of producing, pricing, delivering, and servicing your product successfully.

Although it's important that you develop a general profile of your customers as a group, it's equally important not to lose sight of individual differences and preferences.

Customers can be an important source of new business ideas for the expansion of your operation or sales. For example, you should know that Joe Brown uses the home computer you sold him to help run his business. You should know that Jane Jones would be in to have her hair done more often if she didn't have to leave work early to make her appointment. Only by knowing these personal customer habits can you capitalize on them.

**HOW CAN YOU DEVELOP A GOOD FILE ON YOUR COMPETITION?**

Develop an intelligence file on your competition. Some good sources of information include sales literature, advertising, and customers.




You will want to know how they do business, how much business they do, when they do it, and who their customers are. Almost all of the information can be gathered from their communications and their customers. Trying to find out how much business they do, however, can be tough unless they have an annual report or unless they have such a large share of the market that they are willing to talk about it.

**HOW CAN COMPETITIVE INFORMATION BE HELPFUL?**

What you need to discover is whether or not there's a customer base that they either don't serve or don't serve well enough to keep you out of the market. In establishing your position in the market, you can take advantage of the competition's fixed position, by "flanking" them. For example, if they sell and service office machines, you may decide to sell and service office machines as well as carry the supplies that go with them. Or, you may choose to only service office machines because you know they aren't doing a very good job of it. You may decide to sell office machines because you found out that their service record is outstanding but they don't carry a wide range of machines. You might also look at competitor's advertising to see if they have identified customer needs you could address.

**HOW CAN YOU IDENTIFY YOUR PRODUCT SO THE CUSTOMER RELATES TO IT?**

Besides identifying your product or service in terms of its features (that is, what it's made out of, what it does, or how it works), you will also want to describe it in terms of the needs it fulfills. The marketing unit of the PACE series describes this process in detail. Generally, however, it's a good idea to put yourself in the customer's shoes. When you sell a 3/4" drill, they are buying a 3/4" hole. When you sell an electric typewriter, they are buying a time saving device. When you are selling a "haircut, wash, and set," they are buying" good looks," "relaxation," "pampering," or "time away from the kids."

In all your planning efforts, you will be uncovering and using resources that will be helpful throughout the entire operation of your company.

**WHAT ARE THE BEST SOURCES OF INFORMATION FOR HELP IN STARTING AND RUNNING YOUR OWN BUSINESS?**

Compiling and maintaining a list of these activities (including the names of individuals who have been helpful) will give you an invaluable tool. It can be used to verify a rumor that the competitor is going out of business or that a big company is about to make a major purchase. It can be useful if you decide to expand or relocate or to figure out why sales aren't going as strongly as they should.

(In addition to the sources that we've already discussed, Unit 4 of the PACE series will provide information about technical resources.)

As you begin developing your business plan, remember that one of the strengths of small business is flexibility.

When you developed the profile for your industry segment, identified your position in the segment, described your customers needs and habits, and identified the product in terms of what customer needs it fulfills, you uncovered many possible options for your business. Having a plan that will allow you to take advantage of any of these options will put you in a position to move quickly and efficently in taking advantage of opportunities as they come up.

**WHAT STRENGTHS AND WEAKNESSES WILL YOU BRING TO THE BUSINESS?**

As you are discovering, an entrepreneur needs to be and do many things to get a business off the ground. One important thing for an entrepreneur to do is to know when someone else should be called in to handle an area of running the business.

It can be difficult to assess your own strengths and weaknesses. The outline in table 6 suggests the areas of your abilities that will affect decisions to hire experts or to team up with an entrepreneurial partner. (These abilities are discussed in more detail in PACE Unit 2.)

**HOW DO YOU DETERMINE WHICH ENTREPRENEURIAL CHARACTERISTICS YOU HAVE?**

The entrepreneurial characteristics needed to start a business are under much discussion by the educational and business press. The final decision seems to be that there is no real agreement. There is a documented list of the characteristics observed in many successful entrepreneurs. There also appears to be an uneasy feeling that these same characteristics probably exist in many of the unsuccessful entrepreneurs who have not been found or interviewed.

**TABLE 6**

**AREAS OF SKILLS NEEDED TO SUCCESSFULLY MANAGE AN ENTREPRENEURIAL ACTIVITY**

| Affective (Personal) | Cognitive (Judgmental) | Manipulative (Mechanical) |
|---|---|---|
| Human relations ability | Organizing ability | Physical skill ability |
| Communications ability | Problem-solving ability | Persons with these skills can be hired if necessary |
| Creative ability | Decision-making ability | |

As you analyze your own characteristics, notice that most (if not all) of them could also apply to achieving corporate success as a career-minded executive. The only difference may be in the degree to which an entrepreneur possesses some characteristics in relation to others.

**Tough-Minded**—This character trait suggests that you have the courage to make and stick by a decision even when it's unpopular or is the source of ridicule or sarcasm. Tough-mindedness means you can make a decision based partly on intuition, since all of the answers aren't in yet.

**Hardworking**—This trait keeps you going when the rest have quit. It doesn't mean, however, that you can't play or relax. It means that you only play after your part of the effort is completed.

**Self-Confident**—This trait combines with your tough-mindedness to keep you from having doubts after a decision has been made. You're not apt to back off or worry yourself needlessly. It is a feeling that having done all you can in the way of research and analysis, you know you are right. And if you aren't right, you'll be able to adjust whatever it takes to make it work.

**Reasonable Risk-Taker**—This trait doesn't mean you're afraid to go after the big challenge. It just means that before you take a risk, you have to feel as though you personally can control most of the major elements that will affect the outcome. You don't take a chance when the results are likely to be influenced by forces outside your control.

**Flexible**—This characteristic lets you adjust easily to changing goals, pressures, technologies, and competition. It doesn't mean you don't get flustered once in awhile, but it does mean that you can recover quickly enough to make any needed adjustments in your planning or operation. Being flexible means that opportunities are readily spotted and seized.

**Creative**—This trait doesn't mean you can connect dots in a certain way, draw pictures, or write great stories. Entrepreneurial creativity means you "see" how old ways and old products might be combined in a different way to create a new product for an old market or a new market for an old product.

**Goal-Setting**—This characteristic means you know where you're headed even though you may not have written down your one-year, three-year, or five-year plan. You are oriented toward working for something you don't have. By the time you get it, you've already set your goal a little higher or a little differently. You enjoy the effort as much as the accomplishment.

**Problem-Solving**—This trait doesn't mean you enjoy problems, but that you enjoy solving them when they do crop up. You are not afraid of problems and would rather know what they are and get busy on them instead of hiding from them.

**Profit-Motivated**—This is the characteristic that helps you spot opportunities for doing things better, faster, and cheaper. You get your feeling of success from making a profit.

**Enthusiastic**—This is the characteristic that maintains your animated interest in what you are doing. It provides the eagerness for starting a new business and keeps your mind in a state of "entrepreneurial" thinking. It's the resource that sustains all your other skills and characteristics.

In trying to determine which of these characteristics (or any others) you need, it's probably a safe bet to assume that you can use all of them to one degree or another. Depending on the type of business you've decided on, some may be more important to you than others. If, for example, you've decided to buy the manufacturing rights to a patent, it will probably be more important for you to be a strong goal-setter and problem-solver than to be a creative thinker. However, the more of a creative thinker you are, the easier it will be to spot good marketing opportunities.

The steps to take in minimizing the risks of starting a business generally boil down to the steps to take in maximizing these opportunities.

Review the items in table 5 as you think about minimizing the risks of a new business. As you prepare a flexible business plan to minimize risk, you should also be practicing flexible thinking. Try to anticipate the conditions that could cause you to use a different plan. Then think about what your new actions would be. This doesn't mean you should do a lot of "worry planning." Just be confident that you can change plans if necessary.

Once you've determined the possible risks and have made plans to deal with them, don't worry about them every time you make a decision. No plan is a guarantee for success, and remember—you've already decided that the risk is worth the potential reward. Enjoy the thrill of creating new wealth, new ideas, and new opportunities for others. Enjoy being an entrepreneur.

## ACTIVITIES

The following activities are designed to help you develop insights, opinions, questions, answers, and attitudes.

**INDIVIDUAL ACTIVITY** Write a brief report (one or two paragraphs) on how a case study approach might better prepare you for a career as an entrepreneur.

**INDIVIDUAL ACTIVITY** From your own list of advantages and disadvantages in owning a small business, tell how certain ones might shift from one side to the other, depending on the circumstances. Make notes on your changing attitudes toward advantages and disadvantages. How many of them are "double-edged swords" that go both ways? Can you take steps to keep them in balance?

**INDIVIDUAL ACTIVITY** Write to the industry association(s) that represents the area you have chosen or to the associations in one or two business areas that interest you. Ask for information about the industry and for the names and addresses of other potential information sources. Find out if there is a local association branch office and where it's located. You will find the associations listed in either the *Encyclopedia of Business Information Sources* or the *Encyclopedia of Associations*.[8] Both are written by Paul Wasserman. You may want to contact an industry listed in *Business Standard Rates and Data*.[9] All of these reference sources should be available at the public library. Be sure to keep a file of all the names and addresses of helpful contacts and sources.

**INDIVIDUAL ACTIVITY** Write or call a local small business in the area you've chosen and ask for a fifteen or twenty minute appointment with the owner. Prepare a list of questions or topics to discuss during the visit. Ask if you could have a tour of the company if it's appropriate. While you are with the owner, find out if they have an orientation plan for new employees that you could review.

**INDIVIDUAL ACTIVITY** Draw a picture or a diagram that depicts the circular flow of our economy. Illustrate the relationships between manufacturing, wholesaling, retailing, and services. Indicate where "real" new profit money is generated in relationship to the circular flow.

**INDIVIDUAL ACTIVITY** Determine and list what advantages and/or variety the goods or service you propose to sell are going to give your customers. Will you be offering a better price, quality, or availability? Will it be a product or service with a slightly different design? Will it be a brand new option for the consumers? Would they have to do without the product or service if you didn't deliver it? Will the fact that you start a new business attract other new businesses to the area?

**INDIVIDUAL ACTIVITY** As a small business entrepreneur, describe how you think your venture (1) will fit into the economic circular flow, and (2) how it will contribute to the creation of new wealth.

**INDIVIDUAL ACTIVITY** Describe how the major or "macroeconomic" forces of inflation and interest rates will affect your business. List the government regulations you need to investigate before opening your business. Use the SBA *Annual Report of Small Business and Competition: Executive*

*Summary* in the PACE *Resource Guide*. Discuss these points with the small business owner you interview. Also, check the periodicals index at the public library for recent articles in the *Wall Street Journal*, *Business Week*, *Nation's Business*, and other timely publications.

INDIVIDUAL ACTIVITY

Describe the scope of business activity in the area you've chosen for your business, and in the particular specialty you've selected. *The Survey of Current Business* by the U.S. Office of Business Economics, and the *U.S. Industrial Outlook* by the U.S. Commerce Department may be helpful. Both will be available through the state Department of Economic Development, the Small Business Administration, a federal bookstore, or in the business section of the public library. In addition, Sales and Marketing Management's *Survey of Buying Power*, Parts 1 and 2, will help define the size of the market. These annual publications, along with the monthly magazines published by Sales and Marketing Management, will be available in either the magazine/periodical or business and technology section of the public library.

INDIVIDUAL ACTIVITY

Design a sample questionnaire for the potential customers of your business that will find out—

- why they would buy a product or service (benefit),
- from whom they would buy,
- when they would buy,
- where they would buy,
- why they buy the way they do,
- what they like or dislike about the current buying process,
- what they would change if they could.

Try to get as many responses to the questionnaire as possible from typical customers. Determine if your analysis of the market matches theirs. Is there a substantial area of need you can fulfill? Use these responses only as guidelines for your planning. (They will not be statistically accurate results that can be used to predict the entire group of buyers and their habits.)

Compare your findings with industry trade publications' profile of the buyer and the typical buying habits. If you think the responses you have gotten are significantly different, write or call the editor of the trade publications and discuss the possible reasons for the difference. If you believe you've discovered a unique market advantage, take care that you use enough confidentiality to protect the idea. Take any other necessary precautions throughout the planning stages. (The information you derive from this activity may be helpful in the marketing and communications planning phases of the business.)

INDIVIDUAL ACTIVITY

Use table 6 to determine what areas of your business will be the most difficult for you personally. Decide if you should consult with others from the start or if you can delay the decision until you're operational. Talk to successful small business owners about their operation and management of their businesses.

The local chamber of commerce provides the facilities and opportunities for small business people to get together. Write or call for information on your chamber's small business activities.

INDIVIDUAL ACTIVITY

In analyzing the skills you will personally use in the operation of your venture, group them under the areas of business activities outlined in table 6. Which ones did you use as you worked through this level of Unit 1, *Understanding the Nature of Small Business*?

- How hard-working were you in going after answers from the many resources suggested?
- Were you creative and flexible in discovering new ways to use the resources or in finding others?
- What degree of risk-taking did you feel was right for you in selecting and setting the scope of your business activity?
- In examining the advantages and disadvantages of owning your own business, did you think of ways to avoid any of the personal, social, family, or career disadvantages?
- Have you set goals for yourself and/or the business?
- Do you think making a profit is a good way to measure the success of your venture? Do you believe that your ability to make a profit will ultimately benefit others—customers, employees, welfare recipients, government.
- Did you discover that you are enthusiastic about being independent or a trend setter about bringing new ideas, new money, and new jobs to the American economic system?

INDIVIDUAL ACTIVITY

Use all of the information you've gathered and analyzed to draw up a statement of your company philosophy, purpose, and operational techniques. It should be a brief statement of the following:

- Why you are undertaking the venture
- What you expect to gain from the venture
- Whom you will serve in the business
- What you will promise and deliver them
- How you intend to deliver what you promise

**ASSESSMENT**

Directions: Read the following assessment questions to check your own knowledge of the information in this unit. When you feel prepared, ask your instructor to assess your competency on them.

1. What are the advantages of owning your own business?
2. What are the disadvantages of owning your own business?
3. Why may some time lapse be advantageous during the process of deciding whether or not to go into business for yourself?
4. How would you go about maximizing your own opportunities of owning your own successful small business?
5. How would you minimize the risks?
6. Describe Schumpeter's theory of the "closed circular flow" of economic activity.
7. How are real profit and new wealth created?
8. What major economic forces and government policies are most likely to affect your operation of a small business?
9. Describe the business activity carried out in a specific segment of industry.
10. What is the best way for determining the market need for your product or service?
11. Identify your product or service by describing what customer needs it will fulfill.
12. What personal strengths and weaknesses will you bring to the business?

**NOTES**

[1]Lesher, Richard L. *Economic Progress—It's Everybody's Business.* Washington, DC: U.S. Chamber Press, 1980, p. 7.

[2]Malcolm P. McNair. *The Case Method at the Harvard Business School.* NY: McGraw-Hill Book Company, Inc., 1954, p. 93.

[3]Ibid., p.

[4]Ibid., p.

[5]Baty, Gordon B. *Entrepreneurship for the Eighties.* Reston, VA: Reston Publishing Company, Inc., 1981, p.

[6]Schumpeter, Joseph Alois. *The Theory of Economic Development.* Cambridge, MA: Harvard University Press, 1949. p.

[7]Ibid., p.

[8]Small Business Association. *The State of Small Business, A Report of the President.* Washington, DC: U.S. Government Printing Office, 1982.

We thank the above authors for permission to reprint from their work.

For further information, consult the lists of sources in the *Resource Guide.*

Level 3

# PACE

Unit 1. Understanding the Nature of Small Business

Unit 2. Determining Your Potential as an Entrepreneur

Unit 3. Developing the Business Plan

Unit 4. Obtaining Technical Assistance

Unit 5. Choosing the Type of Ownership

Unit 6. Planning the Marketing Strategy

Unit 7. Locating the Business

Unit 8. Financing the Business

Unit 9. Dealing with Legal Issues

Unit 10. Complying with Government Regulations

Unit 11. Managing the Business

Unit 12. Managing Human Resources

Unit 13. Promoting the Business

Unit 14. Managing Sales Efforts

Unit 15. Keeping the Business Records

Unit 16. Managing the Finances

Unit 17. Managing Customer Credit and Collections

Unit 18. Protecting the Business

Resource Guide

Instructors' Guide

Units on the above entrepreneurship topics are available at the following three levels:

- Level 1 helps you understand the creation and operation of a business
- Level 2 prepares you to plan for a business in your future
- Level 3 guides you in starting and managing your own business

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